

Bettering People, Building Belize - A Budget For All

**BUDGET SPEECH FOR
FISCAL YEAR 2014/2015**

*Hon. Dean Barrow, Prime Minister and Minister of Finance and Economic Development
Belmopan, Friday March 7, 2014*

SUMMARY OF RECURRENT AND CAPITAL BUDGETS

| | BUDGET OUTTURN 2012/2013 | APPROVED BUDGET 2013/2014 | PROTECTED OUTTURN 2013/2014 | DRAFT BUDGET 2014/2015 |
|---------------------------------------|--------------------------------|---------------------------------|-----------------------------------|------------------------------|
| TOTAL REVENUES AND GRANTS | 837,375,770 | 872,475,395 | 900,594,062 | 956,149,756 |
| TOTAL REVENUE | 816,034,765 | 831,393,882 | 860,594,062 | 910,149,756 |
| RECURRENT REVENUE | 811,415,600 | 826,342,818 | 855,485,716 | 904,913,701 |
| TAX REVENUE | 703,685,147 | 727,016,589 | 747,447,432 | 784,069,372 |
| Income and profits | 232,071,622 | 233,781,598 | 240,719,852 | 250,824,836 |
| <i>of which: Petroleum taxation</i> | <i>32,176,255</i> | <i>31,410,125</i> | <i>18,007,768</i> | <i>16,675,731</i> |
| Taxes on property | 4,896,600 | 7,154,307 | 5,901,295 | 5,862,025 |
| Taxes on Int'l trade & transactions | 188,768,121 | 203,465,365 | 199,561,366 | 212,083,645 |
| <i>of which: Import duties</i> | <i>141,173,075</i> | <i>153,751,378</i> | <i>152,290,470</i> | <i>162,559,596</i> |
| Taxes on goods and services | 277,948,804 | 282,615,319 | 301,264,919 | 315,298,866 |
| <i>of which: GST</i> | <i>214,141,915</i> | <i>218,288,840</i> | <i>237,124,953</i> | <i>247,000,000</i> |
| NON-TAX REVENUE | 107,730,453 | 99,326,229 | 108,038,284 | 120,844,329 |
| Property Income | 5,714,168 | 6,869,848 | 15,301,791 | 15,463,972 |
| Licenses | 14,770,480 | 15,818,232 | 14,287,817 | 15,165,785 |
| Royalties | 27,330,047 | 30,339,436 | 37,954,993 | 45,693,853 |
| <i>of which: Petroleum royalties</i> | <i>14,568,896</i> | <i>12,320,000</i> | <i>8,605,664</i> | <i>8,600,000</i> |
| Ministries/Departments | 32,237,246 | 36,877,337 | 39,429,042 | 35,351,820 |
| <i>of which: Oil working interest</i> | <i>6,500,000</i> | <i>10,514,000</i> | <i>12,542,791</i> | <i>8,200,000</i> |
| Repayment of old loans | 27,678,511 | 9,421,376 | 1,064,640 | 9,168,899 |
| CAPITAL REVENUES | 4,619,165 | 5,051,064 | 5,108,346 | 5,236,055 |
| GRANTS | 21,341,005 | 41,081,513 | 40,000,000 | 46,000,000 |
| TOTAL EXPENDITURES | 854,001,007 | 933,840,919 | 974,637,521 | 1,013,204,343 |
| RECURRENT EXPENDITURE | 706,726,240 | 778,004,801 | 780,222,243 | 821,797,672 |
| Personal Emoluments | 298,153,525 | 313,155,625 | 312,005,434 | 332,352,527 |
| Pensions | 54,489,377 | 55,230,406 | 54,788,668 | 57,781,636 |
| Goods & Services | 165,745,287 | 181,049,248 | 173,008,990 | 196,541,284 |
| Subsidies & Current Transfers | 130,593,924 | 132,029,161 | 133,452,141 | 142,795,820 |
| Interest Payments | 57,744,127 | 96,540,361 | 106,967,010 | 92,326,405 |
| CAPITAL EXPENDITURES | 147,274,767 | 155,836,118 | 194,415,278 | 191,406,671 |
| Capital II Expenditures | 66,199,409 | 67,471,148 | 105,141,296 | 105,894,006 |
| Capital III Expenditures | 77,810,897 | 85,241,952 | 86,150,964 | 82,420,877 |
| Capital Transfers & Net Lending | 3,264,461 | 3,123,018 | 3,123,018 | 3,091,788 |
| RECURRENT SURPLUS/[DEFICIT] | 104,689,360 | 48,338,017 | 75,263,473 | 83,116,029 |
| PRIMARY SURPLUS/[DEFICIT] | 41,118,890 | 35,174,837 | 32,923,551 | 35,271,818 |
| <i>As Percentage of GDP</i> | <i>1.30%</i> | <i>1.04%</i> | <i>1.02%</i> | <i>1.05%</i> |
| OVERALL SURPLUS/[DEFICIT] | (16,625,237) | (61,365,524) | (74,043,459) | (57,054,587) |
| <i>As Percentage of GDP</i> | <i>-0.53%</i> | <i>-1.82%</i> | <i>-2.29%</i> | <i>-1.70%</i> |
| AMORTIZATION | (61,199,000) | (64,470,000) | (62,977,000) | (69,411,000) |
| FINANCING: | (77,824,237) | (125,835,524) | (137,020,459) | (126,465,587) |

OUTLINE OF BUDGET STATEMENT FOR FISCAL YEAR 2014/2015

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INTRODUCTION

Mr. Speaker,

I rise to move the second reading of the General Revenue Appropriation Bill for Fiscal Year 2014/2015.

This year, Mr Speaker, we are trying a new approach. This involves a twofold effort. First, we are shortening the oral presentation so as not to overburden the House's and the public's attention span. Then, in this attempt at concision, we are omitting from the Speech a lot of the dry stuff that the regular citizen does not find particularly digestible.

Of course, that material is still absolutely necessary for Members' deliberations and for the dilation of those citizens and agencies that engage in detailed examination of our national Budget. Accordingly, a separate written presentation is being circulated today in the House along with the Speech. It is entitled "Review of the Economy, 2013", and will be available to the general public in both electronic and printed form.

With that said, Mr Speaker, let me get into the prepared Speech.

Mr Speaker,

I consider it fundamental to place the facts and figures, which are the principal constituents of any Budget presentation, into their accompanying social and political setting. That requirement is especially compelling this time round because of a particular conjuncture of circumstances. I therefore hope to make the contextualization exercise especially resonant.

There has lately been some talk of early elections. This has originated with the Opposition and is for reasons that are easy to detect. The recent pace of Government spending and public works, with the accompanying surge in jobs growth, is unprecedented in Independent Belize. This is all part of this Administration's plan, announced some time ago and made more urgent after the sustained rainfall of late 2013 and early 2014. But those on the other side, who only ever did any

serious work before elections, are incapable of coming to terms with this extraordinary muscularity that is now such a prominent feature of the political and economic landscape. Well, I am here to remind them that we have long since demonstrated that action comes standard with the UDP. What is currently being witnessed is therefore no flash-in-the-pan phenomenon, Mr Speaker. This is a train bound for glory and we have the will and the wherewithal to drive it straight on through.

You know, Mr Speaker, when I reflect on all the good things that are happening; when I contemplate the massive turnouts at our UDP conventions; when I am able to take such pride in the quality of candidates we are attracting, I am tempted to say to those on the other side "careful what you wish for". But though I am certain that we would annihilate them whenever, let this talk of early elections cease. There is a job of work to do and even the remaining three years on this term are hardly enough to contain the overflow energies of the United Democratic Party.

And what I say to the Opposition I say also to those other few who seem to want to become a state within a state; who think they can dictate to Government, usurp the rule of the majority. The mandate of this Administration is five years. We have every intention, and what's more every proven ability, to fully discharge that mandate. And discharge it we will because that majority that I speak of is not just the majority in the House. It is the majority in the country, made up of all those that have benefitted and are benefitting from UDP social justice; from UDP nationalism; from UDP jobs; and from UDP opportunities for the poor.

Thus, continued UDP governance for at least three more years is about much more than just a legal and Constitutional mandate. It is, as the details of this Budget will make plain, about where this Government has taken and is taking Belize. And that is to a place in the pantheon, in the vanguard of progress, in the constellation of uplift. Even now, Mr Speaker, Belize, our Belize, is in this sub region, in CARICOM, not second to any and the envy of many.

In this regard the Caribbean Development Bank's regional report of February 11, 2014 is instructive.

For 2013 Tourism was down in the traditional powerhouses of the Bahamas, Barbados, Antigua and Barbuda, Grenada and St Vincent and the Grenadines. In Belize it was up just under 6 percent in both the stay over and cruise sectors.

Overall growth performance improved in Trinidad and Tobago and in Belize. This is in sharp contrast to most of the rest of the Community where economic activity was flat or actually contracted. Examples are Barbados, Jamaica, St Lucia, Antigua and the BVI.

Average inflation in CARICOM was 2.5 percent while in Belize it is 0.5 percent.

In the Bahamas the jobless rate, as measured in May of 2013, was 16.2 percent. In Jamaica it was 15.9 percent through July, and in St Lucia it reached a whopping 23.2 percent. Here it was down in September over 2 percent, from the previous year, to 14.2 percent.

Foreign Reserves increased only in Belize, Trinidad and Tobago and the EC Currency Union. They fell in the Bahamas, Barbados, Guyana, Haiti, Jamaica and Suriname.

There are massive Public Sector layoffs in Barbados, and wage freezes in Jamaica, St Lucia and Grenada. Now compare that, Mr Speaker, to the paradisaical situation in our country where Teachers and Public Officers with this Budget, this Budget, Mr Speaker, are receiving the nectar of a not less than 5 percent salary increase on top of the annual 2.5 percent increment. Altogether this translates into around 34 million dollars more that this Government is finding, just this year alone, for its employees. Truly 2014 is a sort of annus mirabilis, a year of miracles under this United Democratic Party Government. Unfortunately, notwithstanding Government's extraordinary munificence, there seems to be in some quarters ingratitude "sharper than a serpent's tooth". But we will not allow that to rain on our grand raise-of-pay parade.

Of course, there is much more in this Budget than just the headline-grabbing salary increase. In Education we are already paying handsomely for second-chance opportunities, apprenticeship training, First and Second Form subsidies on top of free tuition. Now, with this Budget, we will absorb all fees annually for CXC exams up to six subjects, and we will do this for all students countrywide on a needs basis. Then the same teachers that are already being so amply rewarded

with so much more money in their pockets, will also benefit from a 20 million dollar IDB-funded Teacher Training programme. Maybe now we will begin to see improvement in those PSE results.

In Health we are rolling out NHI to the North of the country, starting with Corozal Bay. This is not a camouflage rollout; not the chimerical, illusory unfunded one that was promised by the PUP as a pre-election gimmick in 2008. This is the real deal, properly planned and paid for by an Administration that is as serious about Health Care advance as it is about Education Reform, poverty alleviation, employment-generation and wealth-creation. Thus, we are also this year increasing BOOST and Food Pantry support.

Then, towering above it all just like the giant crane that is involved in the emblematic Civic Centre project, is Government's iconic Infrastructure Initiative. Never before has so much spending been programmed on construction, road and bridge building, drainage, street rehabilitation, community centers, sporting facilities. Cities, Towns, and Villages; every nook, every cranny, every corner of this country will benefit from our Herculean public works drive. This will improve the quality of life in a measurable, visible way, create thousands of jobs, and inject huge doses of additional disposable income and spending power into the economy.

Mr Speaker, when you look at any abstract of statistics or compilation of economic data in Belize, you will see the great reliance placed on GDP growth as a quantifier of progress. But we all know that is not the whole story. And we really need to come up with some simple, mathematical type formula that will put a figure on annual poverty reduction in this land. Because that is where this Administration really shines. And the various social indicators that we use in the absence of a scientific, number-producing algorithm, offer proof in spades of this Government's proud boast: employment is up, social protection has increased, educational opportunities have expanded, money is circulating and Health Care is improving. And we are doing all this, Mr Speaker, without - yet again - asking for even one red cent in new taxes from the Belizean people.

There is among the commentariat in this country one particular pundit fond of quoting Claudius in relation to inevitable Governance difficulties:

"When sorrows come, they come not single spies/ But in battalions."

Well, we are no Hamlet. There will be no existential agonizing for us, no dithering. We are inheritors of the Baymen's legacy and we meet adversity resolute and clear-eyed. So whether it is replenishment of crops and rescue and repair of livelihoods after the worst rains in a generation; whether it is intervening in the sugar industry to empower justice, rehabilitate roads and enable a crop; or whether it is promoting reconciliation, providing bailout money and avoiding factory closure in citrus, Belizeans can be sure of one thing. This Government will always take arms against any sea of troubles and by opposing end them. That is why in the only election we will have anytime soon, the Municipal election one year from now, the UDP intends to triumphantly enshrine this march of progress, this march of history. I promise you, Mr Speaker, we will win every single seat in every single City and every single Town.

Let me now turn to the Budget proper, Mr Speaker.

REVIEW OF FY 2013/2014 STRATEGY

FISCAL PERFORMANCE

For Fiscal Year (FY) 2013/2014 the Central Government is projecting a small primary surplus of \$33 million, the equivalent of 1.0 percent of GDP, and an overall deficit of \$74 million or 2.3 percent of GDP. The projected primary surplus is in line with the budgeted target of 1.0 percent of GDP, while the projected overall deficit amounts to a slight deterioration from the budgeted deficit target of 1.8 percent of GDP.

Total revenue and grants are projected to be \$901 million, some \$28 million *above* budget, driven largely by un-budgeted inflows of \$22 million from licenses and fees from the IBC and Shipping Registries, and from \$7.0 million in unfrozen dividends from Belize Telemedia Limited (BTL). Tax Revenue from traditional sources (Import Duties, Business Tax, and GST) together increased by \$24 million, but this was offset by weaker than expected performance in other Non-Tax Revenue areas, particularly in the repayments on old loans.

On the Expenditure side, total expenditure for FY 2013/14 is projected at \$975 million, which is \$41 million above budget. Current expenditure increased marginally by only \$2 million, but there was a sharp rise of over \$39 million in Development Expenditure. Driving up the capital spending was the large unbudgeted outlay of almost \$15 million for street and drain rehabilitation countrywide, and for sugar road repairs after the incessant rains experienced over the last several months. Also adding pressure to capital spending were the cost of professional and legal services amounting to \$9 million connected to the debt restructuring and to the on-going litigation on the nationalization of the two utilities. Rounding out the additional expenditure was the outlay of \$10 million to purchase equity in the newly established National Bank of Belize.

The deficit was financed by various loan resources of \$49 million from the multi-lateral lenders and by some \$25 million in draw-downs of PetroCaribe Financing Deposits.

Over the last fiscal year, Government's fiscal strategy has been to contain current expenditure to within the budget figures, and to apply any revenue surpluses to fund the capital program and to

meet the amortization of debt. Since the overall deficit was financed only from concessional sources and no commercial borrowings (either domestic or external) were undertaken, we submit that we have successfully deployed that strategy.

ACHIEVEMENTS DURING THE FISCAL YEAR

Debt Liability Management

Mr. Speaker, our approach to liability management is a defining difference between this Administration and the merchants of debt that preceded us.

At the end of FY 2013/2014, the overall public and publicly guaranteed debt, both external and domestic, is projected to be at \$2.5 *billion*, the equivalent of 78.2 percent of GDP. Domestic liabilities account for 16 percent or \$404 million of the total debt, and the remaining 84 percent or \$2.1 *billion* is classed as external obligations.

For the upcoming FY 2014/2015, the Ministry of Finance forecasts that the overall public debt will *fall* to 75.9 percent of GDP.

Six years ago, the public debt was a startling, 84 percent of GDP.

During the six years of our Administration, since February of 2008, not a single dollar of expensive commercial debt has been contracted on behalf of the Belizean people. Instead, Government has courted bilateral and multilateral lenders whose credit is at concessionary interest rates.

Servicing the public debt during FY 2014/2015 will cost \$92 million. This is \$21 million or 19 percent *less* than the cost of servicing the public debt in FY 2007/2008 when the other Party left office. When we came to power in 2008, 17 cents of every dollar of current revenue was spent on servicing debt; six years later and as a result of scrupulous debt management strategies, that figure has been reduced to 10 cents. Our debt policies have taken down the average interest rate on the aggregate stock of public debt by a stunning 30 percent.

Since September 2012 when Belize re-activated the PetroCaribe Facility with Venezuela, sourcing the national fuel supply from that country and financing a major portion of its cost on long and concessionary terms, this source of bilateral support has yielded some \$168 million. So far, \$10 million has been invested in the start-up of the National Bank, about a million in the commencement of works by the Belize Infrastructure Ltd, and around \$15 million in the national infrastructure renewal program launched after last year's epochal floods. PetroCaribe proceeds have also buttressed social sector investments, bolstered the CBB's foreign reserves. And the Fund stands as a fiscal buffer against possible exogenous events. We offer our abiding gratitude to the Government and people of Venezuela.

On a final public debt related matter, it's important to reiterate that my Administration stands ready to fulfill the offers of compensation, based on the NERA valuations, which have formally been made to the previous owners of BTL and BEL. Government recognizes these liabilities as part of our overall commitment, confident in the validity of our offers for compensation and, ultimately, Government's ability - through various mechanisms - to satisfy these obligations.

So Mr. Speaker. Though the naysayers poured scorn on our promise six years ago, our Administration has achieved the debt objectives pledged to the Belizean electorate. We have significantly reduced the stock of public debt as a percentage of GDP, we have lowered interest rates on those debts, and we have boosted credit from bilateral and multilateral sources. We have done all this while maintaining a prudent level of domestic borrowing. What is even more remarkable is that we have simultaneously expanded the economy and lowered the cost of loans to the domestic private sector.

National Bank

Mr. Speaker, as at end February 2014 the National Bank of Belize had approved 74 housing loans totaling \$5.5 million, and of this \$2.2 million had already been disbursed. Some 40 percent and 38 percent of the loans were to Public Officers and Private Sector Individuals, respectively, and the remaining 22 percent was for Teachers. The same teachers that are even now, led by Union personalities that are clearly playing politics, demonstrating outside this building.

Infrastructure Work Programs

Mr. Speaker, one of the highest priorities of this Government has been the continuing investment in the highways, roads, streets and drains infrastructure across the length and breadth of this country.

In the north, we have spent over \$2.7 million on rehabilitation of sugar roads in response to the heavy rains. This was in addition to the \$2.4 million that was spent on upgrading feeder roads in several villages and communities.

In the west, the work continues at a steady pace on the New Macal River Crossing and on the two connecting boulevards in the Twin Towns of Santa Elena and San Ignacio. Next we will tackle the Santa Elena drainage project and the concreting of Bishop Martin Boulevard. And in Benque and Belmopan, contracts have been signed and activity commenced on cementing a number of major arteries.

In the south, construction of the Southern Highway is nearing completion and the day of travelling the full length of Belize from northern to southern border over a fully paved road of high international standard will soon be a reality.

We have assisted Belize City and all other Municipalities, (regardless of the color of their party flag, as the Mayors in Dangriga and Punta Gorda will attest) in funding street and drain rehabilitation. In this process we have contributed to the creation of hundreds of jobs, particularly for those at the margins to whom having employment means the difference between stability on the one hand and poverty and desperation on the other.

Citizen Security and Community Assistance

In the area of Citizen Security we have invested heavily in equipment and material for our security forces. This increase in resources and capacities, together with the employment-generating activities mentioned above, resulted in a welcome decrease in violent crime and social dislocation especially among our urban youth.

Another key achievement has been the strides we have made in the areas of poverty alleviation. We have channeled stipends to many single-mother households under our conditional cash transfer programs. We have increased our support for people at the grass roots through the community assistance and housing programs. We have helped countless citizens to secure shelter in a safe and healthy environment. Thus, during FY 2013/2014, the Government issued some 3,300 home improvement grants to needy individuals to upgrade their living conditions. This was at a cost of \$3 million.

Health Care

In our health system, we are seeing our people not only living longer, but with a steadily improving quality of life. Government is doing its part by, among other things, providing improved health care and health education. We will continue to invest in the health care system, while urging everyone to make healthier lifestyle choices. The focus, in other words, is on developing a partnership with people by way of a coordinated and integrated approach to health.

Poverty Reduction and Social Protection

Mr. Speaker, through the combined efforts of the Food Pantry Program, the Conditional Cash Transfer Program (under the name of BOOST), and RESTORE Belize, there has been a signal expansion of our efforts at poverty alleviation and social support. This remains a hallmark of our Administration and the logo Social Justice will forever be emblazoned on our UDP banner.

ECONOMIC ENVIRONMENT

Mr. Speaker, with the global and national setbacks of 2013 behind us, the outlook for 2014 is full of promise. The Central Bank is projecting a GDP growth of 2.0 percent in 2014 as the primary sector returns to positive output, construction and tourism hold steady, and Government's capital spending program expands.

Grain production should see a considerable rebound during the year and output of the major export crops is also anticipated to rise. Improved acreage practices in the sugarcane industry should increase sugar production, and already - early in this crop - the factory has set a one-day record for the amount of cane processed. Citrus output is also expected to bounce back as further progress, including by way of additional Government/BAHA investment, is made in the containment of citrus greening. Moderate increases are projected for output of shrimp and whole fish, both of which did well last year.

The tertiary sector will continue to be the main driver of growth in 2014 with stay-over visitors projected to spike at a similar pace to 2013. This is on the back of the stronger performances of Belize's main source markets, and sustained promotional efforts of the Belize Tourism Board. Sectoral activity will also be boosted by the continued growth in Government's capital spending, as several large projects to improve road infrastructure and sporting facilities are rolled out.

On the downside, the secondary sector is likely to contract particularly because the fall in petroleum extraction will continue its slide. Domestic electricity generation is projected to remain stable, but cannot compensate for the petroleum decline.

In regards to the cost of living, it is anticipated that reduced short-term geopolitical risks will keep a lid on oil prices, which is one of the main drivers of inflation. Upward pressures on the local costs for basic food commodities should also be moderated by the continued increase in local production of feed components. The Consumer Price Index is thus projected to pick up a bit but remain manageable at 1.5 percent for 2014.

GOVERNMENT'S REFORM AGENDA

REFORM OF PUBLIC FINANCE MANAGEMENT

Mr. Speaker, work on the reform of the Public Finance Management (PFM) System continued apace in FY 2013/2014.

Implementation of an improved version of the United Nations Conference on Trade and Development (UNCTAD) Automated System for Customs Data (ASYCUDA World) was completed end-December 2013. In their Final Report, the UNCTAD Consultants certified that the Belize Customs clearance process had been successfully automated and rolled-out across the country and that efficiency gains, by way of increased revenue collection, were already being realized. The improved controls and transparency of ASYCUDA World is linked to a program of trade facilitation through the reduction and simplification of official formalities and documentation and will assist Belize in meeting its global trade reporting.

Work on our medium-term action plan to enhance public expenditure management was advanced during FY 2013/2014. Several software modules were purchased, with technical assistance from the IDB, to enhance the Smart Stream System. The areas that are being strengthened include budget implementation and procurement. And work on a program to strengthen the public investment management system, also with technical assistance from the IDB, commenced this fiscal year.

Staff in all ministries continued to receive training from the regional Supporting Economic Management in the Caribbean (SEMCAR) program funded by CIDA and managed by the IMF and World Bank. In particular, staff in the Ministry of Finance and staff from all line ministries benefited from further technical assistance in budget preparation, budget execution, accounting, and treasury operations.

During FY 2013/2014, Program Budgeting was introduced to CEOs and finance staff in all line ministries, and they worked closely with the Ministry of Finance to define the key objectives and priorities of ministries and departments. The idea is to align appropriations and allocations more closely with these objectives, and to give more attention to the reallocation and shifting of

resources within and across programs rather than seeking incremental additions as a first option. The commitment is to use FY 2014/2015 budget as a transitional phase with a planned full rollout in FY 2015/2016. The first set of program budget statements for all ministries and departments is included as an annex in the Budget Book.

Technical help to the staff of the Treasury Department from SEMCAR continued to focus on improving the comprehensiveness and content of the financial statements with the objective of making them compliant with the International Public Sector Accounting Standards (IPSAS) cash based reporting standards by 2015. This is a requirement for this Government's Fiscal Transparency and Responsibility Regulations (FTRR), Statutory Instrument No. 95 of 2010. The work in the Treasury Department has involved a variety of associated reform activities including strengthening regulations, using general ledger information when preparing financial statements, clearing up long-dated receivables and suspense accounts items, and linking financial statements with budget classifications and numbers.

A second Public Expenditure and Financial Accountability (PEFA) Assessment was conducted at end-2013, as scheduled. The Assessment funded by the European Union (EU) involved several of Belize's partners in development and included CEOs, finance officers and accountants. The objectives of the Assessment are to:

- provide reliable information on the performance of Belize's Public Financial Management (PFM) systems, processes and institutions over time;
- contribute to the government reform process by determining the extent to which reforms are yielding improved performance and by increasing the ability to identify and learn from reform success; and
- facilitate harmonization of the dialogue on PFM performance, reform needs and donor support.

Mr. Speaker, my Government remains committed to the reforms that are needed to nurture sustained private sector development. And it was with the objective of sustainable public finances in mind, that we asked the IMF to conduct a review of Belize's tax system. The

diagnostic review was completed in April 2013 and paid special attention to business and income tax, GST and excise taxation. I note that the leadership of the BNTU lists tax reform as one of its objectives in seeking to pressure Government, and seeks to draw support from the IMF. What they want is for the income tax exempt threshold which already - through this Government - sees everyone making 500 dollars or less weekly paying no income tax at all, to be raised. This is on top of the 7.5% salary and increment increases they are already getting. Like Oliver Twist they keep asking for more. But what they should note is that the IMF report recommends that we go in the opposite direction. The IMF would have us tighten the net to bring back in some of those same teachers that currently pay no income tax. Of course we would never do that. Still, that IMF position helps to highlight just how liberal and good and generous this Government is. Rather more helpfully, the review included an examination of the legislation offering tax incentives and identified short-term measures and other suggestions to assist in the development of a strategic medium-term plan for improvement. The expectation is that the recommendations could establish a firm foundation from which to mobilize additional revenue from the current major taxes without having to resort to new ones.

FINANCIAL SYSTEM MODERNIZATION

To reduce overall risks in the financial system, improve efficiency and build greater resiliency, the Central Bank continued to work on improving regulatory oversight and developing the financial infrastructure. In its monitoring of systemic risks the Bank has intensified its macro-prudential oversight, focusing specifically on the interconnectedness between financial institutions, the real economy and international developments.

Assisted by the World Bank, the Central Bank made further strides in its major project to modernize Belize's national payments system (NPS) during the year. The expected benefits include improved mechanisms for the settlement of transactions between parties and the reduction of payment related risks at the systemic and individual level. This should contribute to financial stability, economic growth and financial inclusion.

BUDGET PROPOSALS FOR FISCAL YEAR 2014/2015

UNDERLYING PRIORITIES FOR THE BUDGET

Mr. Speaker, the Government's priorities for FY 2014/2015 can be summed up in three words, "*Additional Social Protection*".

Salary Adjustment for Public Officers

Under the proposed framework for Salary Adjustment for Public Officers, Teachers, and Senior Managers, for the three-year period 2014 to 2016, the Government committed to applying fifty percent of the difference in *actual* recurrent revenue performance between successive fiscal years toward an annual salary raise, with the first to take effect from 1st April 2014.

The concept is that the Public Officers and Teachers would share in one half of the incremental increases, which increases should occur not only because the economy is growing but also as a consequence of redoubled efficiency and collection efforts on the part of the Public Officers.

While this proposal did not meet with the full concurrence of all those comprising the staff side, in particular the leadership of the BNTU, the Government maintains that it is fair and generous and the best it can responsibly do. The fact is that with such a formula Government is taking substantial risks, as Government is in effect making a permanent commitment against what could well turn out to be only a temporary rise in revenues.

As the outturn numbers suggest, though, for this year at least there appears to be an increase of almost \$44 million between FY 2012/2013 and FY 2013/2014. Applying the framework, we then needed to set aside some \$22 million toward the salary adjustment. And this is precisely what we have done. We have allocated the sum of \$22 million in the Capital II Budget of the Ministry of Finance only for this purpose.

Mr Speaker, the Ministry of Finance officials and the Unions are due to meet shortly to hammer out more precisely what rate of increase such a sum will yield, as there is still some estimation to be done with respect to the salary-related transfers. But at this point in time, it is safe to say that the increase will be a minimum of 5 percent for the first year.

This, Mr. Speaker, is above the annual so-called “Merit Increments”, which range in the area of 2.5 percent per annum. I say so-called called, Mr. Speaker, because over the years increments have become automatic and have nothing to do with merit.

So, Mr. Speaker, taken together both the Salary Adjustment and the Annual Increments will yield a total adjustment of over 7.5 percent! And at a total cost of almost \$34 million dollars.

Mr Speaker, I repeat in order to emphasize the magnitude of this achievement, that Government is going out on a limb. But an entrepreneurial Government, an enterprising Government, a Government that does not know the word failure, had no hesitation in doing what we have now done. Despite our disagreements with some of the Union Leaders, we tremendously value both our Public Officers and Teachers. We believe in them, we treasure them and we consider it our special obligation to properly reward them. Thus, we were and are happy to make and live up to this commitment. And we consider its fulfillment the centerpiece of this Budget. And never fear, this Government will make good on the long-term sustainability of the commitment.

But at the same time let me serve notice that we expect that there will be implementation of the other end of the bargain. That is, Staff Side must double down and make every effort to improve the productivity and output of our public service at all levels. This is from the CEOs and Heads of Departments down to the Clerks and Office Assistants, from the School Principals and Managers down to the beginning, first year Teachers.

Mr. Speaker, as even the Chamber of Commerce in its very cagey support of the salary increase made clear, our taxpayers, our creditors, and our development partners expect no less. But we are confident those upon whom we now call will be equal to the task.

Roads and Highways, Streets and Drains – Construction and Reconstruction

Mr Speaker, we are embarking on a stepped-up effort to expand and upgrade the road network throughout Belize, using funds secured from our economic cooperation partners and from the major multilateral development institutions. We will also give high priority to the rehabilitation

and concreting of streets and drains in the main Towns and Villages using funding from the PetroCaribe Facility. And we will as well provide resources for the upgrading of feeder roads countrywide. This last should help to, among other things, lower the costs of transporting our agricultural products to the processing facilities and ultimately to market destinations.

Health Care

As we roll out the hugely successful NHI programme – moving next to Corozal – the Ministry of Health will continue to construct a solid foundation of primary care even as we build our capacity to treat heart disease, kidney disorders, cancers and trauma

Education

In this budget, we will continue to implement reforms in education financing and we will continue to provide resources for teacher education, curriculum development, and early childhood learning. At the secondary level we will, as I earlier indicated, earmark funds to assist deserving secondary school students to pay fees for the all important CXC exams. And Mr. Speaker, we will now pay even more monitoring attention to improved education quality and output.

Citizen Security

Citizen Security remains an over-arching priority of this Government, and resources have been identified to continue the youth and community transformation programs aimed at improving the social conditions of those at risk and those most vulnerable. We are also committed to improve the capacities of the security services (the Police, BDF, and the Coast Guard) through new intakes of recruits and the provision of more and better equipment for these three branches of our forces.

SUMMARY OF THE DRAFT ESTIMATES FOR FISCAL YEAR 2014/2015

The proposed Budget targets a preliminary Primary Surplus of 1.0 percent of GDP and an Overall Deficit of 1.7 percent of GDP. Total Expenditure is estimated at \$1.0 *billion* while Total Revenue and Grants are projected at \$956 million. When taken together, this results in the projected Overall Deficit of \$57 million, the equivalent of 1.7 percent of GDP.

To this figure we must add a further \$70 million for Loan Amortization requirements, and so arrive at the Total Financing Needs of \$127 million.

| Summary of Budget Estimates, FY 2013/2014 to FY 2016/2017 | | | | |
|--|-----------|-----------|-----------|-----------|
| (Bz\$million) | | | | |
| | Projected | Draft | | |
| | Outturn | Estimates | FORECAST | FORECAST |
| | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 |
| Total Revenue and Grants | 900.6 | 956.1 | 981.7 | 1,016.9 |
| Total Expenditure | 974.6 | 1,013.2 | 882.3 | 884.4 |
| Primary Balance | 32.9 | 35.3 | 191.7 | 224.7 |
| <i>As % of GDP</i> | 1.0% | 1.0% | 5.5% | 6.2% |
| Overall Surplus/(Deficit) | (74.0) | (57.1) | 99.3 | 132.4 |
| <i>As % of GDP</i> | -2.3% | -1.7% | 2.8% | 3.6% |
| Amortization | (63.0) | (69.4) | (74.4) | (74.4) |
| Financing Requirement | (137.0) | (126.5) | 24.9 | 58.0 |
| GDP in current market prices | 3,232 | 3,363 | 3,499 | 3,640 |

These financing needs will be met from the following sources:

- Disbursement of \$48 million from Loans already contracted with our multi-lateral development partners to fund our Capital III Expenditure Program;
- Disbursement of \$20 million in budget support financing from the Republic of China (Taiwan) under the on-going bilateral economic cooperation program; and
- A further draw-down of PetroCaribe financing in the amounts of \$59 million.

I should point out Mr. Speaker that the Government is aggressively seeking to attract foreign direct investment into our country. Accordingly, we are in contact with our cooperation partners to share with us human and financial capital, scholarship and other educational and training opportunities, modern technology and best management practices. We consider these to be essential inputs for the successful modernization of our nation.

ESTIMATES OF REVENUE 2014/2015

The Draft Estimates has total Revenue and Grants amounting to \$956 million for FY 2014/2015 and this is comprised of \$905 million in Recurrent Revenue, \$5 million in Capital Revenue and \$46 million in Grants.

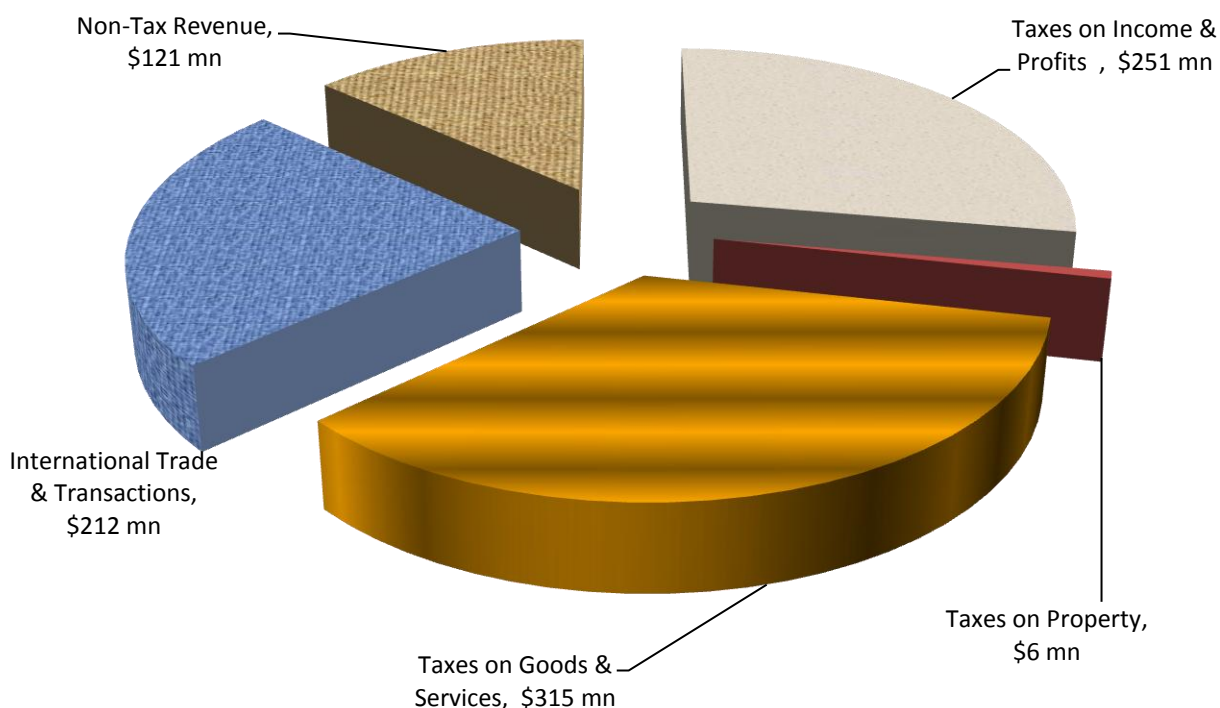
| Summary of Revenue and Grants, FY 2013/2014 to FY 2016/2017 | | | | |
|--|--------------|--------------|--------------|----------------|
| (Bz\$ million) | | | | |
| | Projected | Draft | | |
| | Outturn | Estimates | FORECAST | FORECAST |
| | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 |
| Total Revenue and Grants | 900.6 | 956.1 | 981.7 | 1,016.9 |
| Total Revenue | 860.6 | 910.1 | 935.7 | 970.9 |
| Current Revenue | 855.5 | 904.9 | 930.3 | 965.3 |
| <i>Tax Revenue</i> | <i>747.4</i> | <i>784.1</i> | <i>817.6</i> | <i>852.6</i> |
| Taxes on Income & Profits | 240.7 | 250.8 | 260.9 | 271.5 |
| Taxes on Property | 5.9 | 5.9 | 6.0 | 6.1 |
| Taxes on Goods & Services | 301.3 | 315.3 | 329.2 | 343.8 |
| International Trade & Transactions | 199.6 | 212.1 | 221.5 | 231.3 |
| <i>Non-Tax Revenue</i> | <i>108.0</i> | <i>120.8</i> | <i>112.7</i> | <i>112.7</i> |
| Property Income | 15.3 | 15.5 | 15.1 | 14.8 |
| Licenses | 14.3 | 15.2 | 15.5 | 15.9 |
| Royalties | 38.0 | 45.7 | 45.5 | 45.4 |
| Ministries & Departments | 39.4 | 35.4 | 34.4 | 34.5 |
| Repayment of old loans | 1.1 | 9.2 | 2.2 | 2.2 |
| Capital Revenue | 5.1 | 5.2 | 5.4 | 5.5 |
| Grants | 40.0 | 46.0 | 46.0 | 46.0 |

Mr. Speaker, I stress again that in projecting an increase in recurrent revenues we expect a boost in collection efforts from the main tax sources, and robust performance of the re-acquired registries. This ought to compensate for the continued decline in petroleum revenues and also a

sharp fall-off in inflows from the Repayment of Old Loans, some of which have been fully liquidated in the course of the fiscal year.

Mr. Speaker, it is worthwhile to note, regarding the decline in oil production, that there are a number of exploratory wells planned in new blocks across the country. Furthermore, there is still hope that the recent show in the North West will prove to be extractable in commercial quantities. Indeed, another appraisal well is being dug by Maranco this very month. But the hard reality is that we currently do not have any new production. Therefore we are doing the prudent thing and assuming that there will be no additional revenue from this sector in the coming year.

Chart 1: Sources of Government's \$905 million Revenue in FY 2014/15



ESTIMATES OF RECURRENT EXPENDITURE 2014/2015

The Draft Estimates of Recurrent Expenditure is proposing a total of \$822 million in recurrent expenditure up by \$42 million over the projected outturn of \$780 million for FY 2013/14. Of this proposed amount, some \$332 million is for Personal Emoluments, \$58 million for Pensions,

\$197 million for Goods and Services, \$143 million for Subsidies and Current Transfers, and \$92 million for Interest Payments on Debt. As much of the Current Transfers is to the Education Sector, used in turn to pay wages by the grant-aided institutions, it would be safe to say that of the \$822 million in current expenditure, approximately \$460 million or some 53 percent is used to fund wage or wage-related expenditure, including pensions. This means, in regards to current revenue, that fully 51 percent of every dollar is used for this purpose.

| Summary of Expenditure, FY 2013/2014 to FY 2016/2017 | | | | |
|---|---------------|----------------|---------------|---------------|
| (Bz\$ million) | | | | |
| | Projected | Draft | | |
| | Outturn | Estimates | FORECAST | FORECAST |
| | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 |
| Total Expenditure | 974.6 | 1,013.2 | 882.3 | 884.4 |
| Current Expenditure | 780.2 | 821.8 | 786.6 | 796.9 |
| Wages and salaries | 312.0 | 332.4 | 363.2 | 370.6 |
| Pensions | 54.8 | 57.8 | 59.7 | 61.6 |
| Goods and services | 173.0 | 196.5 | 210.4 | 211.1 |
| Subsidies and current transfers | 133.5 | 142.8 | 61.0 | 61.3 |
| Interest payments & other charges | 107.0 | 92.3 | 92.3 | 92.3 |
| Capital Expenditure & Net Lending | 194.4 | 191.4 | 95.7 | 87.5 |
| Capital II | 105.1 | 105.9 | 44.8 | 44.8 |
| Capital III | 86.2 | 82.4 | 47.8 | 39.7 |
| Net lending | 3.1 | 3.1 | 3.0 | 2.9 |
| Amortization | (63.0) | (69.4) | (74.4) | (74.4) |

ESTIMATES OF CAPITAL EXPENDITURE 2014/2015

Mr. Speaker, my Government is proposing to allocate some \$191 million to its capital program in the upcoming fiscal year, made up of some \$106 million in locally funded Capital II expenditure and some \$82 million in the externally funded Capital III expenditure.

The continuing priority will of course be on the upgrading of Roads, Streets and Drains. In Toledo works will be completed on the Southern Highway between Big Fall and the Belize/Guatemala Border. In the West we will advance on the New Macal River Crossing, and in the North on the construction of the new facilities at the Santa Elena Border. Feeder Road Rehabilitation will take place countrywide, and the Northside Flood Mitigation Project will start

and the Southside Poverty Alleviation Project continue in Belize City. All of these are donor-financed on concessional terms.

Separately, Mr Speaker, we are allocating the sum of \$10 million for the commencement of the National Primary Road Rehabilitation Project.

Mr. Speaker, we have not forgotten the social sector and the commitment to it by which this Government lives. Thus you will find in the Budget Book that substantial allocations have also been made to the Youth and Community Transformation Project, to the Community Action for Public Safety Project, to Health Reform and Education Policy Reform.

Mr. Speaker, I concede - indeed I boast - that these numbers are big, ambitious. But in fact they are well within our ability to implement this coming fiscal year, and we are certain that we will do so. The capacity constraints of the past are long gone and to prove the point I refer to the fact that the outturn for the current year shows that we achieved, and even exceeded, the global Capital III spending targets.

CONCLUSION

Mr. Speaker,

I believe that I have been able to demonstrate that this is a good Budget. It speaks to an economy that, looking ahead to citrus and other agriculture recovery, unprecedented Government spending, continued tourism advances, and the real possibility of new oil finds, will be broadly in balance. And that is the objective in modern times: to balance the economy, not the Budget. Gone is the era when economics were premised on Mr Micawber's formula: "Annual income twenty pounds, annual expenditure nineteen and six, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and six, result misery." Now a country can spend more than it earns because of the availability of debt as an instrument to fund investment and construct the pillars for accelerated growth. Of course we have not thrown away Charles Dickens just to embrace Oscar Wilde, who famously said that anyone who lives within their means suffers from a lack of imagination. But it is okay, and indeed desirable, to borrow sustainably. And fiscal deficits are fine within certain limits, sticking to accepted benchmarks. When, therefore, this Administration is able to borrow at 1 percent over twenty years and do all else to drive growth and development, you will forgive us for feeling that we've found the elixir to turn what Carlyle referred to as 'the dismal science' into a fine art.

Mr Speaker, today is the anniversary of the second incarnation of the UDP Government, and marks the sixth year of our continuing Administration. To show just how far we have come and just how well we have done, let me compare it to when the PUP reached its six-year mark.

In September of 2004 the Said Musa Administration, after being in office since 1998, was compelled to admit that their government's fiscal deficit was a staggering 9 percent of GDP. Furthermore, the DFC was broke, bankrupted by hundreds of millions in crony loans including the infamous, one-day, 30 million dollar Novelo transaction. Tens of millions of SSB funds had been committed to bogus mortgage securitization schemes, especially to Glenn Godfrey/Intelco companies. And in those six years between 1998 and 2004, the Administration had quadrupled the public debt from under \$560 million to over \$2 billion. This they did by engaging in high-

cost commercial borrowing from the likes of RBTT and Bear Stearns, with stratospheric effective interest rates of as much as 20 percent per annum. All this was why, soon after, there was a public revolt against massive new tax measures including the re-imposition of VAT disguised as GST.

The increments of those same Teachers demonstrating today, and of the Public Officers, were frozen. Capital expenditure shrank, social sector spending was rolled back, the IFIs shut off lending to Belize and of course we no longer had access to commercial borrowing. In a matter of months the Administration would have to declare a debt default, unleashing upon us the Super Bond monster. And, finally, there were those scandalous secret Accommodation Agreements and Tax Exemptions signed by the then Prime Minister and then Attorney General, and later described by the CCJ as malignant tumors.

Compare and contrast, Mr Speaker, our 2014 to their 2004 and you will see why there is zero chance that those clamouring for elections will be returned to Government anytime soon. Despite the twin handicaps of a sickly economy inherited by us from the PUP in 2008 and the epic global crisis of 2008/2009, this Administration has guided Belize through 5 consecutive years of growth. And this without incurring a single dollar of their type of expensive commercial debt.

The DFC, revived by the UDP, has returned to profitability with a robust lending portfolio for agriculture, small businesses, homeowners and students. SSB's resources are invested prudentially and in the national interest, as is witnessed by the proposed loan to bail out the citrus industry while ensuring a 7 percent return for the Board. Of course, under the UDP there is not a whisper of scandal tainting the activities of either of the two entities.

The Belize dollar currently enjoys historic strength, backed up by an unprecedented \$830 million in foreign reserves. Confidence in Government's fiscal performance and honest custody of the economy has allowed new and plentiful IFI and bilateral flows. The financial system is chock full of liquidity and domestic business access to credit facilitated by a reduction of the weighted average lending rate from 14.3 percent under the PUP to 10.8 percent under the UDP.

Perhaps above all, the openness and credibility of the Office of the Prime Minister have been restored and secret deals and illegal tax giveaways banished forever.

In concluding on this point that the lip professors and whited sepulchers across the aisle will for the foreseeable future remain exactly where they are, let me return to Claudius. I want to paraphrase his self-description and apply it to them, scrambling in vain to reclaim power, turning every trick to try and weasel their way into the good graces of the Belizean people. What Claudius described as 'the whore's pockmarked cheek made pretty with make-up', is just like the ugly actions they are seeking to disguise with their new rhetoric. Imagine, Mr Speaker, they dare to talk now about social justice and nationalism! They that plundered the treasury, pillaged the public purse and gave away our patrimony to the foreign overlord.

Well I say again that it is we, the United Democratic Party, who own nationalism and social justice. We who have made the word flesh and demonstrated faith through action. We who, in our latest repatriation move, took back the IBC and Ships Registries that the PUP had illegally given away for 30 years. We who are returning half of the income therefrom to the Teachers and Public Officers. We, in other words, Mr Speaker, who continue to provide the nation with the psychological uplift and the resource dividend from patriotism unshackled and sovereignty resurgent.

Away, then, Mr Speaker, with the harlot's brow, falsely beautied with plastering art. True sunshine is breaking out all over Belize and we in the UDP are messengers of the day. In this refulgent dawn those that can't see the many good things around us must be blinded by the light. But as servants of the people we work every day to forge advances, to mould progress. And this diurnal toil is of course a labour of love, rewarded each time we record another instance of economic empowerment, another installment of poverty alleviation. We are confident, then, that the strong hand and watchful eye of our stewardship will continue, for the benefit of all, to properly husband the rich, ever-renewing resources of this bountiful, blessed land.

Mr. Speaker, I thank you.